



GALLERIA

GALLERIA RESOURCES INC

ANNUAL REPORT

Year Ending March 31, 1995

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders of Galleria Resources Inc. will be held in the boardroom of the Company's Solicitors, Burstall Ward, 1800, 800 - 5th Avenue S.W., Calgary, Alberta, on September 28, 1995 at 10:00 A.M.

NOTICE TO WARRANT HOLDERS

On November 30, 1994, Galleria closed a flow-through private placement offering of 233 units of \$5,100 per unit which raised \$1,188,300 for exploration and development expenditures. Each unit comprised 17,000 flow-through common shares and 17,000 warrants entitling the subscriber to acquire one flow-through share at \$0.40. The deadline to exercise these warrants is September 15, 1995. As of August 1, 1995, subscribers had exercised 430,000 flow-through warrants for a total proceeds of \$172,000.

CORPORATE PROFILE

Galleria Resources Inc. is an emerging Canadian-owned oil and gas producer headquartered in Calgary, Alberta. Galleria's immediate focus is the acquisition and profitable operation of oil and gas properties in Western Canada. In its search for suitable properties, the Company will strive to maintain a balance between existing production and a steady stream of development and exploration initiatives for adding new reserves. The company will also pursue oil and gas opportunities outside Western Canada if these are particularly attractive. In all its activities, Galleria's management will aim for technical excellence, operating efficiency and the maintenance of a strong financial position.

REPORT TO SHAREHOLDERS

On behalf of the Board of Directors, I am pleased to report to you on the activities of Galleria Resources Inc. for the year ending March 31, 1995.

Since its inception as a public company, Galleria has completed the following:

September 28, 1994	Major transaction closed with the acquisition of two gas wells and associated lands in the Alderson area of Alberta.
November 30, 1994	Flow-through private placement offering closed for proceeds of \$1,188,300.
December 20, 1994	Agreement signed to earn 10% interest in UK-Ran Oil Corporation's share in an Oil & Gas Joint Venture in Ukraine.
January 4, 1995	Capital commitment of \$1,000,000 to earn up to 15% of a five-well drilling program in the Wargen/Martin area of British Columbia.

We have accomplished a lot in a short time. In addition, a number of important events have occurred subsequent to the end of the fiscal year. Galleria has grown from a Junior Capital Pool company to become an emerging oil and gas producer with operations in Western Canada and participation in an impressive Joint Venture in Ukraine. There is, of course, a great deal of work to be done, but we have a talented team of directors and senior managers and a clear vision of Galleria's future.

I hope to get the opportunity to talk with each of you -- the shareholders of Galleria -- as 1995-1996 unfolds. In the meantime, thank you so much for your many contributions as loyal and supportive shareholders.

On behalf of the Board of Directors



D.R. (Daniel) Lescamela
President and C.E.O.
August 15 1995
Calgary, Alberta

PROPERTIES AND ACTIVITIES

ALDERSON

Galleria completed its major transaction on September 28, 1994 by acquiring a working interest in two producing gas wells and associated lands in the Alderson Area of Alberta. Alderson is located in southeastern Alberta, 85 km northeast of Lethbridge. The acquisition price of \$502,000 was financed through the issuance of 1,673,333 common shares at \$0.30 per share. The interests acquired in the two wells are 8.333% and 25%.

Revenues from the two wells are not meeting initial expectations primarily due to the weak gas prices being felt throughout the industry. Plans are in place to accelerate production rates by installing a compression system, however, this has not yet occurred because of the weak prices. Galleria will realize a substantial increase in cash flow from its existing reserves when the inevitable strengthening of gas prices occur.

WARGEN/MARTIN

Galleria committed \$1,000,000 to earn up to 15% of a five-well drilling program in the Wargen/Martin area of British Columbia. The program was successful in that four of the five wells were gas wells with the ability to provide Galleria with net production of approximately 1.25 MMSCF/D. Substantial cost overruns by the operator, a major industry production company, and severely depressed gas prices, forced the subsequent sale of this interest. The sale included the assumption by the purchaser of the cost overruns. Galleria netted \$725,000 from its tax adjusted investment of \$562,000. Management believes it can effectively utilize the cash on other attractive acquisition opportunities.

CANADIAN/UKRAINIAN JOINT VENTURE

Galleria has entered into an agreement with UK-Ran Oil Corporation ("UK-Ran Oil") that will enable Galleria to participate in an oil and gas joint venture in Ukraine. UK-RAN Oil, a Canadian Corporation based in Calgary and UKRNAFTA, a Joint Venture company of the Government of Ukraine based in Kiev, have

established a Joint Venture called Kashtan Petroleum Ltd. ("KASHTAN"), to conduct commercially beneficial long-term business activities in the oil and gas industry in Ukraine. Galleria's agreement with UK-Ran Oil enables Galleria to earn 10% of UK-Ran Oil's shares in the KASHTAN Joint Venture.

The Joint Venture has received rights to a concession area known as the Pryluki Petroleum Administration Region. The concession area is approximately 55,000 square kilometres in size and contains numerous oil and gas fields in various stages of development and depletion. There are a total of 661 wells in the concession area, of which over 600 were drilled as development wells. Twenty oil and gas fields have been discovered thus far, including three with approximately 600 million barrels (Lelyaki, Gnedinsky and Pryluki) and seventeen smaller fields ranging from 3 to 35 million barrels.

The first field that will be developed is the Lelyaki Oilfield located approximately 120 km east of Kiev. In 1995-1996, UK-Ran Oil plans, on behalf of KASHTAN, to spend \$3 million to \$5 million U.S. on the initial phase of the evaluation and development program. This capital budget will enable UK-Ran Oil to complete two wells which were drilled in mid 1994 and perform up to 12 workovers, with operations expected to commence before the 1995 calendar year end. This initial development work will target early cash flow in order to make the joint venture self funding as early as possible. Future plans include additional workovers and drilling of step-out exploration wells in the Lelyaki Field and other large fields in the Pryluki Petroleum Administration Region.

At the time of writing this report (mid-August 1995), Galleria is also actively negotiating on two other oil and gas development opportunities in Western Canada. These properties appear to meet management's economic criteria, and therefore, show potential to become core properties for the Company.

SUBSEQUENT EVENTS AND OUTLOOK FOR 1995

On May 1, 1995, Galleria entered into a farmin agreement to participate in the drilling of a well in the Chigwell Area, of Alberta. Galleria's interest in this well and surrounding lands is 12.5%. Drilling is planned for mid-August 1995. The drilling target is the oil-bearing D-3 Leduc formation. The total cost to Galleria for drilling and completing this well is estimated to be \$70,000.

In June 1995, an independent engineering consultant, PetroGlobe (Canada) Ltd. prepared a report on the proposed development of the Lelyaki Field in the Pryluki Petroleum Administration Region in Ukraine. The report indicated recoverable oil reserves of not less than 25 million barrels with attractive economics; an undiscounted future net income after existing Ukrainian taxes and royalties, of \$76.4 million U.S. (\$7.64 million U.S. or \$10.7 million CDN net to Galleria). This figure applies only to the first field in the 55,000 square kilometer consession area.

On April 5, 1995, Galleria acquired 18.18% of UK-Ran Energy Corporation shares, a Canadian Corporation based in Calgary that also owns 10% of UK-Ran Oil's shares. When combined with the December 20, 1994 agreement to earn 10% of UK-Ran Oil's shares, this latest transaction raises Galleria's participation in the Ukraine Joint Venture to 11.82%. Therefore, based on the PetroGlobe (Canada) Ltd. report, total cash flow value after existing Ukrainian taxes increases to approximately \$9 million U.S. or \$12.6 million CDN net to Galleria.

In July 1995, Galleria was approached by a Canadian oil and gas company regarding partnership in another oil and gas joint venture in Ukraine. Negotiations are underway in an attempt to obtain a majority interest in a second Joint Venture.

AUDITORS' REPORT

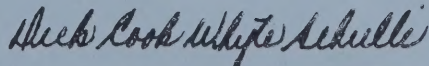
To the Shareholders of Galleria Resources Inc.

We have audited the balance sheets of Galleria Resources Inc. as at March 31, 1995 and 1994 and the statements of loss and deficit and changes in financial position for the periods then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1995 and 1994 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Calgary, Alberta
August 10, 1995



CHARTERED ACCOUNTANTS

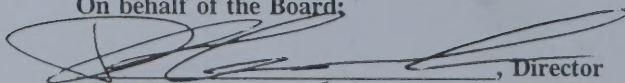
GALLERIA RESOURCES INC.

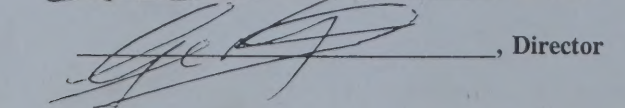
Balance Sheet

As at March 31, 1995

	<u>1995</u>	<u>1994</u>
Assets		
Current		
Cash and short-term deposits	\$ 210,669	\$ 228,334
Accounts receivable - Note 3	26,925	2,278
	<u>237,594</u>	<u>230,612</u>
Loan receivable - Note 4	214,303	-
Deferred income taxes - Note 5	92,965	-
Resource properties - Note 6	520,961	-
	<u>\$ 1,065,823</u>	<u>\$ 230,612</u>
Liabilities		
Current		
Accounts payable	\$ 10,543	\$ 3,668
Shareholder's Equity		
Share capital - Note 7	1,237,301	232,546
Deficit	(182,021)	(5,602)
	<u>1,055,280</u>	<u>226,944</u>
	<u>\$ 1,065,823</u>	<u>\$ 230,612</u>

On behalf of the Board:

 , Director

 , Director

See accompanying notes

GALLERIA RESOURCES INC.

Statement of Loss and Deficit

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

	<u>1995</u>	<u>1994</u>
Revenue		
Oil and gas sales	\$ 47,790	\$ -
Interest and other	21,357	765
	<u>69,147</u>	<u>765</u>
Expenses		
Depletion and amortization	6,250	-
Filing fees	12,509	407
Office and administration	34,211	1,727
Professional fees	11,406	4,233
Production costs	27,750	-
Resource property impairments	153,440	-
	<u>245,566</u>	<u>6,367</u>
Net loss	(176,419)	(5,602)
Deficit, beginning of year	<u>(5,602)</u>	<u>-</u>
Deficit, end of year	<u>\$ (182,021)</u>	<u>\$ (5,602)</u>
Loss per share	<u>2.4c</u>	

See accompanying notes

GALLERIA RESOURCES INC.

Statement of Changes in Financial Position

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

	<u>1995</u>	<u>1994</u>
Operating activities		
Net loss	\$ (176,419)	\$ (5,602)
Add items not affecting cash		
Depletion	6,250	-
Resource property impairment	153,440	-
	<u>(16,729)</u>	<u>(5,602)</u>
Financing activities		
Issue of shares	1,069,100	285,000
Cost of issuing shares	<u>(157,310)</u>	<u>(52,454)</u>
	<u>911,790</u>	<u>232,546</u>
Investing activities		
Loan to private company	(214,303)	-
Resource acquisitions		
Major Transaction	(502,000)	-
Other	(1,004,451)	-
Less tax benefits foregone	825,800	-
	<u>(894,954)</u>	<u>-</u>
Cash provided by (invested in) working capital	<u>(17,772)</u>	<u>1,390</u>
Increase (decrease) in cash	(17,665)	228,334
Cash, beginning of year	<u>228,334</u>	<u>-</u>
Cash, end of year	<u>\$ 210,669</u>	<u>\$ 228,334</u>

See accompanying notes

GALLERIA RESOURCES INC.

Notes to Financial Statements

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

Note 1 - Incorporation, Operations

Galleria Resources Inc. was incorporated as 575161 Alberta Inc. by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on July 30, 1993. The name of the Corporation was changed to Galleria Resources Inc. by Certificate of Amendment dated October 22, 1993. At March 31, 1994, the Corporation was a Corporation as defined in the Alberta Securities Commission Policy 4.11. pending completing of the Major Transaction.

Effective September 12, 1994, the Corporation completed its Major Transaction, as defined, and became a Public Corporation listed on The Alberta Stock Exchange.

The Corporation completed its Major Transaction with the acquisition of certain resource properties for \$502,000 by issuing 1,673,333 common shares at an ascribed value of \$0.30 per share. The transaction was completed using the provisions of Section 85 of the Income Tax Act of Canada with the resource properties being acquired at \$1 for income tax purposes.

Note 2 - Significant Accounting Policies

(a) Resource properties

(i) Capitalization

The Corporation follows the full cost method of accounting for its resource properties wherein all costs associated with the acquisition and development of oil and gas reserves are capitalized. Costs include acquisition, exploration, drilling and base maintenance expenses. Costs are accumulated in a single cost centre - Canada. Proceeds from dispositions are deducted from capitalized costs except when a significant disposition occurs. Gains or losses are recorded on significant dispositions.

(ii) Depletion

Depletion of resource properties is provided using the unit-of-production basis using proved reserves.

GALLERIA RESOURCES INC.

Notes to Financial Statements

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

Note 2 - Significant Accounting Policies - Continued

(a) Resource properties - continued

(iii) Impairments

The Corporation compares the carrying value of its resource properties to the estimated future net cash value of its revenues using year-end prices. A provision for impairment is made where an excess carrying value is indicated.

In assessing impairment in the current year, the expected selling price of property was used to determine impairment.

(iv) Joint ventures

The Corporation carries on its resource activities through joint ventures and only records its proportionate share of these operations.

(v) Site restoration costs

No provision for site restoration costs is made as the Corporation anticipates the salvage value of the properties will equal such costs.

(b) Foregone tax deductions on share issues

The Corporation has acquired certain resource properties in connection with the completion of its Major Transaction. These properties were acquired at nominal values for income tax purposes. The Corporation has also renounced the tax attributes of resource expenditures made in connection with the issuance of certain "flow-through" shares.

The cost of resource properties and amounts allocated to share capital have been reduced by the value of the tax benefits foregone.

(c) Earnings per share

Earnings per share amounts are calculated based on the weighted average number of shares outstanding during the respective periods.

(d) Foreign exchange

The Corporation uses the temporal method to account for foreign exchange transactions.

GALLERIA RESOURCES INC.

Notes to Financial Statements

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

Note 3 - Accounts Receivable

Included in accounts receivable is \$11,250 due from a director for shares issued on exercise of directors options.

Note 4 - Loan Receivable

The loan amount (\$155,000 U.S.) is due from a private Corporation and is non-interest bearing with no fixed repayment terms. The loan was made to assist the private Corporation in securing certain foreign oil and gas concessions. Subsequent to the year-end, the Corporation converted \$138,260 (\$100,000 U.S.) of the loan into a 10% interest in the private Corporation.

Note 5 - Income Taxes

Deferred income taxes relate to costs of issuing shares that have been deducted from share capital.

At March 31, 1995, the Corporation has non-capital losses that may be carried forward to reduce future taxable income aggregating \$55,000. These losses expire in 2001 and 2002. The Corporation also has resource pools of \$2,000 and undeducted financing costs of \$176,000 that may be used to reduce future taxable income.

Note 6 - Resource Properties

Resource properties consist of the following:

Capitalized costs	\$ 1,230,811
Reduction for tax benefits foregone	(703,600)
Accumulated depletion	(6,250)
	<hr/>
	\$ 520,961

Values assigned to tax benefits foregone have been reduced for depletion and impairments recorded. Capitalized costs have been reduced by the gross impairment values.

GALLERIA RESOURCES INC.

Notes to Financial Statements

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

Note 7 - Share Capital

Authorized:

Unlimited number of:

Common Voting Shares without nominal or par value

First Preferred Shares

Second Preferred Shares

The First and Second Preferred Shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Details of issued common share capital are as follows:

	<u>Shares</u>	<u>Amount</u>
Issued during fiscal 1994:		
On incorporation	2,500,000	\$ 75,000
Public offering	2,000,000	200,000
Exercise of agent's options relating to public offering	100,000	10,000
		285,000
Less expenses of public offering		(52,454)
Balance March 31, 1994	4,600,000	232,546
Issued during fiscal 1995:		
On completion of Major Transaction, net of tax benefits foregone of \$222,600	1,673,333	279,400
On exercise of balance of agent's options	100,000	10,000
On exercise of directors options	225,000	22,500
On completion of private placement of flow-through shares, net of tax benefits foregone of \$526,900	3,961,000	661,400
On exercise of warrants for flow-through shares, net of tax benefits foregone of \$76,300	430,000	95,700
		1,069,000
Less costs of issuing shares, net of tax benefits of \$92,965		(64,245)
	6,389,333	1,004,755
Balance March 31, 1995	10,989,333	\$ 1,237,301

GALLERIA RESOURCES INC.

Notes to Financial Statements

For the year ended March 31, 1995 and
the eight month period ended March 31, 1994

Note 7 - Share Capital - Continued

At March 31, 1995, a total of 2,863,333 shares are held in escrow pursuant to escrow agreements dated November 1, 1993 and September 28, 1994. The shares shall be released from escrow on approval from the Alberta Securities Commission as to one third on the first, second and third anniversaries of the completion of the Corporation's Major Transaction which is September 12, 1994. At March 31, 1995, there are directors options outstanding to acquire 225,000 common shares at \$0.10 per share. These options expire on October 31, 1998.

At March 31, 1995, certain shareholders hold warrants, issued as part of the flow-through private placement, to acquire a further 3,531,000 common shares at \$0.40 per share. These warrants expire September 15, 1995.

Note 8 - Commitment

The Corporation has an obligation to spend a further \$358,400 prior to February 28, 1996 on resource properties pursuant to flow-through private placements of common shares. The tax benefits of these expenditures will be passed on to the holders of these shares.

Galleria Resources Inc

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CORPORATE INFORMATION

DIRECTORS

D.R. (Daniel) Lescamela
E.K.S. (Emil) Rem(tullah)
M.F. (Mark) Ross
A.J. (Al) Kroontje

OFFICERS

D.R. (Daniel) Lescamela
President and C.E.O
E.K.S. (Emil) Rem(tullah)
Secretary - Treasurer
and
Chief Financial Officer

EXCHANGE LISTING

Galleria trades under the symbol
"GAL"
on The Alberta Stock Exchange

AUDITORS

Dick Cook Whyte Schulli
Chartered Accountants

SOLICITORS

Burstall Ward
Barristers & Solicitors

BANKERS

The Royal Bank of Canada

TRANSFER AGENT & REGISTRAR

Montreal Trust Company of Canada
6th Floor, Western Gas Tower
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8